BRITISH COLUMBIA PETROLEUM CORPORATION

ANNUAL REPORT
1991-1992

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CORPORATE PROFILE

The British Columbia Petroleum Corporation ("BCPC") was established on November 8, 1973. As an agency of the British Columbia Crown, BCPC's original function was to market all of the natural gas produced in the Province of British Columbia. By purchasing gas and by-products from producers, and selling gas directly to Westcoast Energy Inc. and other customers, BCPC ensured an orderly market and fair gas prices on all provincial gas sales.

On August 1, 1990, the marketing operations of BCPC were transferred to CanWest Gas Supply Inc., a private company owned by a consortium of British Columbia gas producers. Concurrently, new legislation (the *Natural Gas Price Act*, 1989 and the *Natural Gas Price Amendment Act*, 1990) was proclaimed, which redefined the British Columbia Government's role in the natural gas industry.

Today, BCPC is a gatherer, processor, analyzer and distributer of information specific to the natural gas industry. The Corporation facilitates the sale of natural gas and natural gas liquids and by-products for the benefit of the private sector. At the same time, it monitors the industry, and fulfills a compliance role for the benefit of the public sector.

LETTER OF TRANSMITTAL

June 24, 1992

To His Honour the Honourable David Lam,
Lieutenant-Governor of the Province
of British Columbia

MAY IT PLEASE YOUR HONOUR:

I have the pleasure to submit the Annual Report of the British Columbia Petroleum Corporation for the year ended March 31, 1992.

Anne Edwards
Minister of Energy,
Mines and Petroleum Resources

93-01120/

1991/92 OPERATIONS REVIEW

The fiscal period ended March 31, 1992 marked British Columbia Petroleum Corporation's first full year of administrative operations within a completely deregulated British Columbia natural gas market. Since BCPC is now an information-based organization, precise data calculations are critical to the integrity and effectiveness of the Corporation. Consequently, the primary focus of BCPC management is to ensure that the Corporation has the ability to collect, analyze, store and communicate information to government and industry in a highly efficient and timely manner. Over the course of 1991/92, several important steps were taken to meet these objectives.

During the year, BCPC substantially upgraded and expanded its computerized information system. This was a major component of the Corporation's Strategic Information Systems Plan submitted in June 1991 by Ernst & Young. An electronic data interface was developed as well as procedures for more efficiently managing data, in keeping with the Corporation's business goals. BCPC is now able to review and monitor monthly gas sales and production data directly from its two primary sources of gas sales information, Westcoast Energy Inc. and CanWest Gas Supply Inc. Upgrading of the Corporation's MIS was carried out by a consulting firm which offered BCPC the opportunity to achieve immediate consistency of data and capitalize on cost savings, as the same consultants had previously implemented systems in both Westcoast and CanWest.

Liaising regularly with industry is another important facet of BCPC's communications role. The Corporation maintains close ties with gas producers and aggregators in both British Columbia and Alberta. During 1991/92, information bulletins and newsletters were routinely distributed to these industry participants keeping them informed of relevant issues. In May 1991, BCPC management held a seminar in Calgary for the Canadian Petroleum Association and the Independent Petroleum Association of Canada, to outline the Corporation's role after the devolution of its marketing functions. BCPC management also meets with producers regularly to review specific areas of concern. As part of this process, early last year, discussions were held regarding netback pricing methodology. Through these discussions with producers, a mutually agreeable methodology was arrived at for calculating the netback price, recognizing the total revenues and total costs involved in marketing their gas. The netback pricing calculation was subsequently amended effective January 1, 1991.

During the year, the Corporation's monitoring and compliance verification procedures were substantially improved. In order to meet the information requirements of the Corporation and the Ministry of Energy, Mines and Petroleum Resources, both the Monthly Sales Report and Acquisition Order processes were refined. A Monthly Sales Report form was developed and is currently being used by producers and aggregators. This report successfully captures producer gas swaps and monitors first and second generation provincial gas sales. As the Corporation's Acquisition Order Request form had been designed prior to the implementation of its information system, it was streamlined considerably and now elicits data more effectively from producers.

In the 1991/92 year, the Corporation issued a total of 201 new Acquisition Orders. As at March 31, 1992, 589 active Acquisition Orders were being monitored by BCPC, approximately 70% of which represented direct, system, or end-user sales, and 30%, gas sales to CanWest Gas Supply Inc. BCPC also reviewed a number of sales applications during the year, and subsequently issued 29 Findings of Producer Support to four aggregators.

When the Corporation's marketing activities were transferred to CanWest Gas Supply Inc. on August 1, 1990, 147 British Columbia producers

held gas purchase contracts with BCPC. Of these, the majority agreed to amend their contracts by substituting CanWest for the Corporation. As at March 31, 1992, a total of 29 companies remained with the Corporation, representing 153 individual gas purchase agreements for a combined deliverability of 3945.5 thousand cubic meters (139,280 MCF) per day. These contracts are administered by CanWest under the terms of the Leftover Gas Agreement. The producers involved continue to receive the same netback price for gas as producers with CanWest, however, they do not have voting privileges with respect to the determination of that price.

On November 1, 1991, a new Firm Service Agreement was reached with Pacific Northern Gas Ltd. and Methanex Corporation (formerly Ocelot Chemicals Inc.). As a result, BCPC's contractual relationship with Methanex has been restricted to supplying transportation service only. This agreement is in effect until November 1, 2002. Under the previous agreement, BCPC's liability also included a commitment to purchase a minimum annual volume of natural gas each year. As the Corporation is no longer a direct marketer of natural gas, Methanex will now purchase its gas directly from producers, thereby limiting further involvement and liability on the part of the Corporation.

Annualized Levy Rate

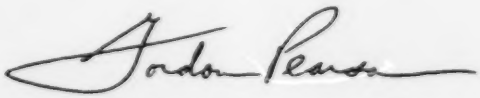
The 1992/93 natural gas levy charged to producers based on their sales volumes has been set at 15.3 cents per thousand cubic meters (0.4 cents per gigajoule), representing a 22.7% rate reduction over 1991/92. The levy was implemented to offset added administrative costs related to the Corporation and Ministry's roles subsequent to the devolution of marketing activities. This latest assessment reflects both BCPC's commitment to keep its operating overhead at a minimum, and higher than forecast revenues in 1991/92. It is gratifying to report that the current rate represents the second consecutive year in which the levy has been lowered.

Over the past year, BCPC has developed into a strong administrative agency in keeping with its mandate. As the Corporation proceeds into 1992/93 it continues to be concerned with four key objectives:

- Interpreting industry data and providing accurate and timely pricing information to the Ministry of Energy, Mines and Petroleum Resources.
- Facilitating the sale of natural gas and natural gas liquids and by-products, and ensuring a fair market for the benefit of the public sector.
- Strengthening the audit and compliance program.
- Fostering a positive and productive partnership among all participants in the Province's natural gas industry, both private and public.

A solid technical and administrative team and the appropriate technological resources are now in place to accomplish these tasks. The talent and commitment of employees at every level of the Corporation are integral to its successful performance, and their contributions over the past year are greatly valued.

In the coming year, management will continue to focus on meeting its primary goal of providing state-of-the-art information and technical support to the Ministry of Energy, Mines and Petroleum Resources and to the British Columbia natural gas industry.



Gordon Pearson
General Manager
June 1992

CONSOLIDATED BALANCE SHEET

as at March 31, 1992

	1992	1991
ASSETS		
Current		
Cash	**$ 1,053,086**	$ 1,423,730
Accounts receivable	**3,206,110**	5,746,411
Prepaid expenses	**1,489**	1,353
	4,260,685	7,171,494
Capital assets (Note 4)	**216,197**	160,318
	$ 4,476,882	$ 7,331,812
LIABILITIES		
Current		
Accounts payable and accured charges	**$ 3,440,883**	$ 6,579,753
Surplus	**1,035,999**	752,059
	$ 4,476,882	$ 7,331,812

Commitments (Note 6)

Approved by Directors:

Director

Director

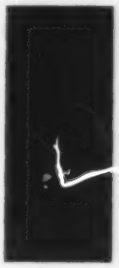
CONSOLIDATED STATEMENT OF REVENUE, EXPENDITURE & SURPLUS

for the year ended March 31, 1992

	1992	1991
Revenue		
Natural gas deliveries (Note 3)	**$ 46,391,170**	$ 32,192,281
B.C. Levy revenue (Note 2)	**2,635,227**	2,559,480
Interest (Note 5)	**116,368**	1,150,897
Miscellaneous income	**-**	10,042
Gain on prepaid gas	**-**	28,279
	49,142,765	35,940,979
Expenditure		
Natural gas purchases (Note 3)	**46,391,170**	32,192,281
Administrative and general expenses	**957,655**	589,434
	47,348,825	32,781,715
Excess revenue over expenditure	**1,793,940**	3,159,264
Surplus at beginning of year	**752,059**	26,190,777
	2,545,999	29,350,041
Deduct: Transfers to Provincial Treasury	**1,510,000**	28,597,982
Surplus at end of year	**$ 1,035,999**	$ 752,059

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended March 31, 1992



	1992	1991
Operating Activities		
Operations		
Excess revenue over expenditure	**$ 1,793,940**	$ 3,159,264
Add (deduct) items not involving a flow of cash		
- amortization	**34,951**	27,895
- gain on disposal of capital assets	**-**	(2)
Cash from operations	**1,828,891**	3,187,157
Changes in non-cash working capital		
Accounts receivable and prepaid expenses	**2,540,165**	(5,251,311)
Accounts payable and accrued charges	**(3,138,870)**	6,517,738
Recovery of prepaid gas	**-**	183,404
Transfers to Provincial Treasury	**(1,510,000)**	(28,597,982)
	(279,814)	(23,960,994)
Investing Activities		
Capital additions	**(90,830)**	(183,040)
Proceeds from sale of capital assets	**-**	94,744
	(90,830)	(88,296)
Decrease in cash position during the year	**(370,644)**	(24,049,290)
Cash position at beginning of year	**1,423,730**	25,473,020
Cash position at end of year	**$ 1,053,086**	$ 1,423,730

CONSOLIDATED NOTES

for the year ended March 31, 1992

Note 1 *Statutory Requirements*

The British Columbia Petroleum Corporation is established by the *Petroleum Corporation Act*, 1973.

Note 2 *Significant Accounting Policies*

Consolidation

The British Columbia Petroleum Corporation financial statements include the accounts of the Corporation's subsidiary, B.C. Petroleum (Kitimat) Ltd.

Amortization

Furniture, equipment and automobiles are recorded at cost and amortization is provided at rates considered adequate to amortize the cost over the service lives of the assets. Amortization is computed on a declining balance basis varying from 10% to 25%.

Levy Revenue

Under the *Natural Gas Price Amendment Act*, 1990, the producers are required to pay a levy based on the monthly volume of marketable natural gas produced. This levy is intended to offset administration costs incurred in carrying out the government's role in monitoring and overseeing the natural gas marketplace.

Note 3 *Natural Gas Contracts*

Until October 31, 1991, the Corporation purchased gas from Pacific Northern Gas Ltd. under a contract dated August 1, 1981. The Corporation resold the gas to Methanex Corporation, formerly Ocelot Chemicals Inc., for use in that company's methanol plant in Kitimat under a separate contract dated August 1, 1981.
Effective November 1, 1991, the Gas Purchase Agreement with Pacific Northern Gas Ltd. and the Gas Sales Agreement with Methanex Corporation, formerly Ocelot Chemicals Inc., were converted to a Firm Service and an Interruptible Sales Agreement.

Note 4 *Capital Assets*

	Cost	Accumulated Ammortization	1992 Net Carrying Value	1991 Net Carrying Value
Furniture and equipment	$ 253,030	$ 48,749	$ 204,281	$ 144,982
Automobiles	18,149	6,233	11,916	15,336
	$ 271,179	$ 54,982	$ 216,197	$ 160,318

Note 5 *Interest*

	1992	1991
Interest Income		
Province of British Columbia	$ 88,150	$ 1,088,898
Other	28,218	61,999
	$ 116,368	$ 1,150,897

Note 6 *Commitments*

The Corporation has a commitment under an agreement for the lease of office premises extending to January 31, 1996. The minimum lease payments under this agreement are as follows:

Year ended March 31, 1993	$ 70,044
March 31, 1994	70,044
March 31, 1995	70,044
March 31, 1996	58,370
	$ 268,502

Note 7 *Comparative Figures*

The 1991 comparative figures represent eight months of operations following the devolution of the Corporation's gas marketing functions on August 1, 1990.

AUDITORS' REPORT

To the Lieutenant-Governor in Council
Province of British Columbia

We have audited the consolidated balance sheet of the British Columbia Petroleum Corporation as at March 31, 1992, and the consolidated statements of revenue, expenditure and surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1992 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the Company Act of British Columbia, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Wolrige Mahon

WOLRIGE MAHON
Chartered Accountants

Vancouver, B.C.
May 12, 1992

CORPORATE INFORMATION

Directors

John Allan
Deputy Minister of Energy,
Mines & Petroleum Resources
Victoria, B.C.

Hon. Audrey L. Moore
Mayor of Castlegar, B.C.

Hon. Robert Trail
Mayor of Dawson Creek, B.C.

Senior Personnel

Gordon A. Pearson
General Manager

Marlene S. Saunders
Acquisition Order Co-ordinator

Sharon A. Baylis
Finance and Administration Officer

Corporate Offices

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Auditors

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